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PROGRAMME-LEVEL ACTIVITIES

Micro-capital grants

Report of the Administrator

SUMMARY

This report has been prepared in response to Governing Council decision 90/15 of 22 June 1990 on micro-capital grants. It summarizes the various initiatives taken in order to enhance UNDP understanding and knowledge of micro-capital support since the adoption of decision 90/15; addresses the role of such support in human development strategies; reviews UNDP experience to date with micro-capital assistance and the lessons learned; and, finally, reports on follow-up actions being prepared to facilitate the implementation of micro-capital assistance in the future.

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INTRODUCTION

1. The present report on UNDP micro-capital assistance has been prepared in response to Governing Council decision 90/15 adopted at the thirty-seventh session in June 1990. 1/ In this decision, the Governing Council endorsed the concept of micro-capital support in association with technical cooperation programmes. It also authorized the Administrator to implement relevant activities using existing mechanisms for support to local grass-roots initiatives, while avoiding involvement of UNDP field offices in the direct management of such activities. The Administrator was further authorized to seek co-financing at the local level as well as the involvement of the community and local non-governmental organizations (NGOs).

2. Since the adoption of this decision, several reviews of UNDP experience to date in this area have been carried out, including a survey based on a questionnaire sent to all UNDP field offices in September 1991, a review of selected examples of UNDP projects with micro-capital components, as well as a separate review of the United Nations Volunteers programme (UNV) as a channel for micro-capital assistance. In addition to these specific initiatives and the valuable experience gained through programmes supported by the United Nations Capital Development Fund (UNCDF), lessons have also been drawn from separate evaluations of the Partners in Development Programme and the Africa 2000 Network, as well as a regional meeting of Grass-roots Initiatives Support Fund (FAIB) projects in Lomé, Togo, in September 1991. Together with a UNDP policy discussion paper prepared in 1989 entitled "Credit for the Poor", these various initiatives have all contributed to a strengthening of UNDP's understanding and knowledge of micro-capital assistance; this understanding and knowledge will, in turn, provide the basis for guidelines to be sent to the field offices in 1992.

I. THE ROLE OF MICRO-CAPITAL ASSISTANCE (MCA) IN HUMAN DEVELOPMENT STRATEGIES

3. All the studies cited above support the view that there is a widespread unmet demand for MCA. There seems also to be a consensus that MCA may be a useful and effective tool in efforts to reach out to the poor segments of populations, in both rural and urban areas, especially with regard to improving their access to income and employment opportunities. As a flexible tool, MCA can be used to support a wide variety of activities, from building social infrastructure in a rural village to providing credit in order to start up a micro-enterprise in an urban slum. In particular, when used in combination with technical cooperation, MCA may form an important instrument in a strategy of promoting human development and making it the central operational concern. In this regard, a separation between technical cooperation and capital assistance may appear quite artificial, not least in connection with efforts aimed at poverty alleviation and grass-roots participation, inasmuch as poor or disadvantaged people will often need more than just new skills or new knowledge in order to improve their own

situation: they will also need the means to apply these gained advantages to good effect.

II. UNDP EXPERIENCE TO DATE WITH MICRO-CAPITAL ASSISTANCE

4. The survey of UNDP involvement in MCA activities carried out during September-November 1991 showed that there is widespread interest for this concept among UNDP resident representatives, especially with regard to its potential role in poverty alleviation strategies. In line with this interest, many resident representatives indicated that their offices have taken steps to initiate new micro-capital support projects in the fifth cycle.

5. Of the 55 field offices that responded to the questionnaire by 25 November 1991, 25 reported that micro-capital assistance activities had already been started during the fourth cycle. Eighteen of these were located in the Africa region. In the Arab States and Europe, on the other hand, 15 of 16 field offices responded that they had not yet initiated any MCA projects. In the Asia and Pacific and the Latin America and Caribbean regions, there seemed to be a more equal distribution between UNDP field offices with and without MCA experiences. Of the 71 reported projects for all regions combined, 6 were projects supported by the United Nations Development Fund for Women (UNIFEM) and 4 by the United Nations Capital Development Fund (UNCDF). The most widely reported intermediary or channeling organizations were banks and NGOs.

6. Forty-two reported projects, about two thirds of the total, involved credits or loans; 16, or about one quarter, involved grants; and 8 included both grants and credits or loans. In addition, a few projects involved a loan guarantee fund. The size of the individual grants or loans given under each project was rarely reported to exceed $20,000. Most activities supported by the MCA projects were reported to be of an economic or productive nature; e.g., income generation projects, micro-enterprises or informal sector activities. There seemed, furthermore, to be a clear predominance of rural-based activities. About one third of the reported existing projects were said either to have secured co-financing or were hoping to do so in the future.

7. In addition to the experience reported in this survey, it is important to have in mind that within the framework of UNDP-administered resources, UNCDF delivers small-scale grant investment. Credit is a large and diverse component in UNCDF-supported projects. Of a total cumulative commitment of $718 million in 1990, $68 million were allocated to credit components. UNCDF works in close cooperation with UNDP-financed technical cooperation and is, for instance, also financing a portion of the UNDP Partners in Development Programme.

8. The 1991 review of UNV as a channel for MCA concluded that a wide range of activities receive funding through Domestic Development Services (DDS) field workers, who have often been successful in mobilizing funds from

non-UNDP sources. It was also found that the procedures for administering MCA vary considerably between countries. The report emphasized as well that the UNV/DDS programme is most effective where it has the dual role of combining MCA with activities to strengthen local institutions in order to improve their capacity to manage development activities.

9. All this shows that the range of UNDP experience with MCA is already quite broad. If such special initiatives as the Partners in Development Programme and the Africa 2000 Network are kept apart, one can distinguish the following six main types of MCA projects with UNDP involvement:

(a) Revolving funds and/or small grant facilities that are established as components of mainstream technical cooperation projects in order to strengthen their poverty alleviation impact;

(b) MCA in association with UNV/DDS where DDS field workers are facilitators for the disbursement of small grants or loans to support projects in the communities where they are based;

(c) The FAIB model where grass-roots initiatives support funds are set up with the Government and are aimed at developing sustainable national programmes for support to economic micro-projects initiated at the community level. There are presently 12 such projects in operation, all of them in the Africa region. UNDP has supported the establishment of the facility itself and provided the capital;

(d) Of a related nature are national programmes specifically set up to provide credit for micro-entrepreneurs. UNDP has supported such programmes with technical cooperation in the establishment phase, has mobilized co-financing from other donors, has provided support to intermediary NGOs and sometimes has contributed capital to the programme itself;

(e) MCA components under such initiatives as the Social Investment Funds which are set up in order to compensate for the social costs of structural adjustment programmes. Such funds usually consist of a set of initiatives, including credit programmes, public works programmes to create employment, and basic needs programmes. Social Investment Funds are most common in Latin America, but the model is now also being applied in other regions. UNDP involvement has usually been institutional support to strengthen the managerial and technical capabilities of the fund as well as those of its implementing agents. UNDP support has, in several cases, been crucial for the mobilization of financing from other sources; and

(f) Loan guarantee funds which are set up with commercial banks in order to insure them against possible financial losses incurred by giving credit to poor people. The UNDP role in such schemes has been both as a catalyst/facilitator and as a provider of capital for the guarantee fund itself.

III. SOME LESSONS LEARNED FROM THIS EXPERIENCE

10. It is possible to divide the experiences listed above into two main categories: those described in (a) and (b) above where capital assistance is included as a component in such mainstream technical cooperation projects as agricultural or housing development projects; and those described in (c), (d), (e) and (f) above where the primary objective of the project itself is to establish a facility for micro-capital assistance such as a credit programme or a grass-roots initiatives support programme.

11. It is too early to determine if there is any significant difference between the two categories in terms of the effectiveness of UNDP involvement. The main difference seems rather to be in terms of the need to be addressed, and hence in the choice of strategy. One of the strengths of UNDP is precisely its ability to respond flexibly to different needs under different circumstances. Hence, the UNDP choice of intervention should be made in each case according to the specific situation in a country and the nature of the problem to be addressed. It should be decided in each individual case what kind of technical cooperation would be most appropriate to provide to whom, and whether and to what extent it would be natural or necessary for UNDP to provide capital resources as well.

12. For example, where the objective is to establish a large national credit facility for micro-enterprises, UNDP may find that its most natural role is in institution building, including a strengthening of the management capacity both of the facility itself and of the intermediary organizations; sometimes it may also be necessary for UNDP to provide seed capital and mobilize co-financing from other donors in order to get the facility into operation on the desired scale. On the other hand, when the purpose of a small grant programme or a revolving fund is to enable the poorest among the target population to make use of the technical cooperation offered by a UNDP-funded project, it may be natural to include the establishment of the fund as an integral part of the project as such.

13. Management of MCA programmes is a time-consuming task with a need for close monitoring. It is often emphasized that it is the capacity of the channeling organizations that constitutes one of the main limiting factors for the outreach of such schemes. Hence, selecting the most appropriate intermediary as a channel for this kind of assistance is crucial. At the same time, the development of management systems for MCA schemes should be seen as part of a process of building national capacities, where appropriate assistance to strengthen the intermediary's management capacity and other institution-building aspects should be included as integral project components.

14. In the survey of UNDP involvement in MCA activities, the experience from cooperation with NGOs appeared generally to be very positive, with the main strength of NGOs as intermediaries reported as being their ability to reach out to grass-roots level beneficiaries. In order to be able to provide effective technical cooperation, however, and to assume the responsibility for the management of micro-funds, it was emphasized by many field offices that

NGOs will often need to strengthen their capacities in these areas. Banks, on the other hand, were said to have their strength in management expertise and availability of funds, but were reported as often being unwilling to get involved in MCA projects. In a couple of countries, loan guarantee funds had been set up to overcome the reluctance of commercial banks to get involved in micro-capital activities.

15. It should be stressed that different intermediaries may be appropriate under different circumstances. The choice should be made according to country-specific comparative advantages and to the target group and type of activity to be funded, bearing in mind the need for sustainability. There is a variety of possible channels, including government bodies, NGOs, banks and other financial institutions. DDS field workers can serve as facilitators, strengthening local capacity and self-reliance and supplementing the primary role of national personnel. A combination of channels can sometimes be a good solution, e.g., a bank administering a credit facility, with NGOs being responsible for outreach and support to the target groups.

IV. FOLLOW-UP ACTIONS

16. UNDP field offices are being encouraged to make increased use of MCA where deemed appropriate, especially as a tool used in combination with technical cooperation in poverty alleviation strategies. Such combined assistance may be important in enhancing the effectiveness of UNDP-supported programmes, by giving the poorest among the intended beneficiaries access to the capital resources needed to enable them to make full use of their new skills and knowledge.

17. In order to facilitate this, field offices will be provided with operational guidelines that build on the lessons learned from experience to date in order to provide advice on alternative ways in which MCA schemes can be set up and operated, and on the conditions under which the various alternatives seem to be most appropriate. These guidelines will also address such specific issues as the selection of intermediary structures, the kinds of activities to be funded and the choice between grants or loans, the selection of beneficiaries and issues concerning sustainability.

18. Appropriate procedures and systems will be established in order to facilitate reporting, monitoring and accountability and to ensure both transparency and flexibility.

19. Sharing of information and experience between projects involving MCA will be encouraged; and project examples, from which important lessons can be learned, will be compiled and distributed to field offices.

Notes

1/ Although UNDP can fund projects only on a grant basis, the support covered by this report may reach the ultimate beneficiaries as either grants, credits or loans; the term micro-capital assistance has therefore been used instead of micro-capital grants.